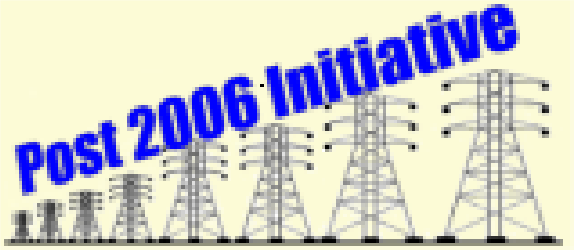

Scenario 2:
The Maryland RFP Process

Procurement Working Group Meeting
Chicago
June 3, 2004

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Introduction

- The Maryland "standard offer" procurement process is a representative recent example of Scenario 2: Full Requirements RFP
- Other examples: MA, ME, RI, DC, CT, OH
- This presentation is organized in five parts:
  - Defining the Maryland "standard offer" products
  - Regulatory oversight and performance requirements
  - Bidding format and evaluation process
  - The results of Maryland's recent RFP process
  - The difference to the New Jersey process (Scenario 1)

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Defining the "Product"

- The product is full requirements wholesale supply service
- Supplier responsible for energy, capacity, reserves, AS, losses, deliverability to PJM system; utility remains LSE and passes through FTRs and NITS costs.
- Five "standard offer" products for four customer classes:
  - Residential
  - Type I Non-Residential (not demand metered)
  - Type II Non-Res (demand metered < 600 kW)
  - Type III Non-Res (largest customers)
  - Hourly-Priced Non-Res (largest customers)
- Split into load shares for fixed percentage of a customer class' hourly load (approx. 50MW)

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Defining the "Product"

- Overlapping one, two and three year contracts to reduce price volatility for smaller customers
- Bid schedules reflect rate structure of each customer class (seasonal, TOU, demand)
- No limitations on customer switching, but upper limit of volumetric obligation for bidders lessens transfer of quantity risk to them
- Utilities continue to serve as PJM "Load Serving Entities" and provide Network Transmission

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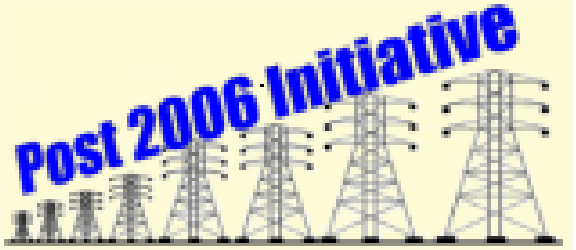

Regulatory Oversight and Process Safeguards

- Commission maintains oversight :
  - Approval of state-wide framework (based on broad settlement)
  - Pre-approval of utilities' specific procurement design (based on broad settlement)
  - Independent monitoring of entire procurement and bid evaluation process
  - Approval of bids selected from each RFP round within two business days
- All procurement costs recovered in rates subject to true up

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Regulatory Oversight and Process Safeguards

- Bidder prequalification requirements:
  - PJM member in good standing; FERC market-based rate authority
  - Credit requirements and financial information
  - Bid Assurance Collateral ($300,000 per bid)
- Awarded bids require posting of additional collateral by suppliers with poor credit rating
- In the event of supplier default:
  - Other suppliers can "step up" to fill gap
  - Utility purchases remainder in PJM until longer-term solution can be proposed

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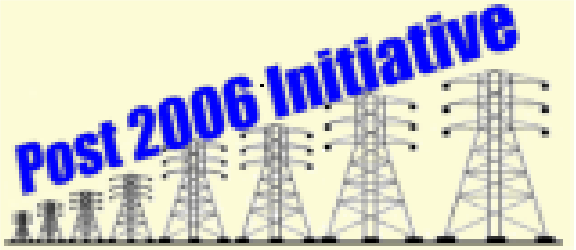

Bidding Format and Evaluation

- Suppliers fill out and submit spreadsheet with bids for one or more load shares
  - Bids represent firm commitments and cannot be changed or withdrawn
  - Lowest bids are selected based on present value of all bid components (seasonal, TOU, demand)
  - Clearly pre-specified thresholds allows rejection of certain anomalous bids
- Winners are paid exactly what they bid
- Customer rate components based on weighted average of all bid components

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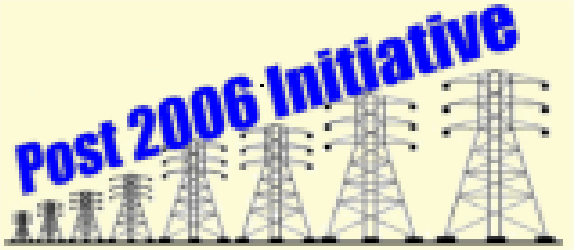

Bidding Format and Evaluation

- Annual RFP cycle on exactly same timeline for the state's four utilities
- With the transparency of process, affiliates are allowed to participate without restrictions
- RFP process consists of four separate rounds of bidding:
  - First three rounds for approximately 50%, 30%and 20% of total supply of load shares
  - Sequencing allows repositioning of unsuccessful bids
  - Fourth round used as spare if less than 100% was awarded in first three rounds

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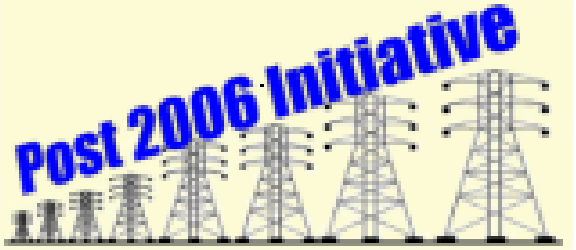

Bidding Format and Evaluation

Pre-bidding Process:

4 months	Posting of information, expression of interest, pre-bid conference, bidder prequalification

Each Bidding Round:

1st day	Submit bids and post collateral
2nd day	Award bids
3rd day	Execute contracts
5th day	Commission approval of transactions
8th day	Finalize quantity of shares for next round
14th day	Submit bids for next round

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Results of Recent RFP Process

- Completed multi-round RFP process in April 2004 for deliveries starting on July 1
- 25 wholesale suppliers offered four to five times the total amount of solicited MWs
- Winning contracts were assigned to a diverse group of 14 suppliers
- Declared a "success" by Maryland Public Service Commission

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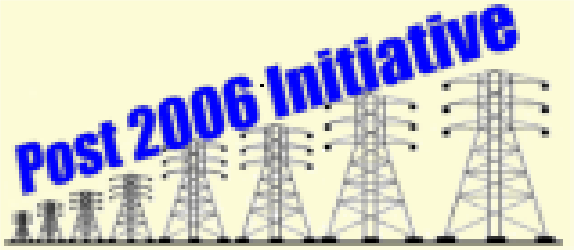

Main differences to New Jersey procurement process (Scenario 1)

- Products and customer classes
  - MD has five products (fixed-price option for 4 customer classes plus optional RTP)
  - NJ has two (one fixed-price option for small and mid-sized customers plus RTP for very large)
- Bid Selection format
  - MD RFP has 4 sealed-bid rounds with pay-as-bid pricing
  - NJ uses descending clock auction resulting in uniform prices
- Translating bids into rate structure
  - MD uses seasonal, TOU, demand prices of winning bids to determine customer rate structure
  - NJ auction produces only $/MWh price; uses formula to translate price into seasonal, TOU, demand based rate structure

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Advantages of "Standard Offer" Approach (Scenarios 1 & 2)

- Highly transparent, competitive procurement approach
  - Objective, fully pre-specified bid selection process
  - Streamlined, less contentious regulatory process
  - Consistent with FERC affiliate sales policies
- Efficient allocation of risks and responsibilities
  - Distribution company manages procurement process and provides distribution service
  - Suppliers take on all generation-related responsibilities, including portfolio/risk management
  - Does not require regulated entity to duplicate portfolio/risk management function readily available in wholesale market

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Advantages of "Standard Offer" Approach (Scenarios 1 & 2)

- Results in predictable, market-based rates for customers
  - Rates are set annually based on transparent procurement outcome with only minimal true up requirements
  - Provides predictable basis against which customers can assess retail service alternatives
  - Results in stable but market-based rates for regulated service, consistent with continued development of retail access
- Established operational and regulatory track record in other retail access states
  - Used in majority of retail states facing similar policy issues
  - In addition to NJ and MD, used in MA, RI, CT, ME; endorsed by DC and OH

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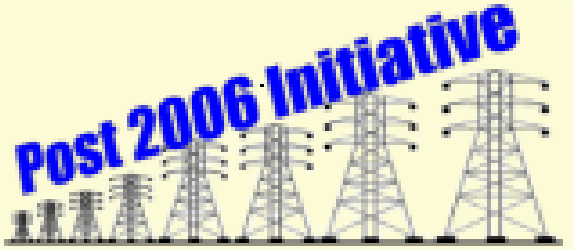

Potential Drawbacks of "Standard Offer" Approach

- Less akin to IRP process and "Energy Plans"
  - No traditional IRP/portfolio/risk management decision within utility and regulatory process
  - But: compatible with policy objectives such as rate stability, energy efficiency, renewable resource, or resource adequacy standards
- May require more supplier sophistication
  - Full requirements rather than traditional energy products (block energy, forwards, options); may require teaming for single asset suppliers
  - But: wholesale market offers these functions
- Potentially less rate design flexibility
  - Rate design and allocation process should be pre-specified
  - But: rate structure can still be independent from bidding format; changes in rate designs impose risks on all full-requirements suppliers (either utility or wholesale suppliers)

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